

Skilled nursing facilities: assessing payment adequacy and updating payments

ISSUE: Each year MedPAC recommends to the Congress a payment update for the coming year for skilled nursing facilities (SNFs). The Commission uses information on various market factors and the relationship between Medicare payments and facilities' costs in evaluating the adequacy of Medicare's current SNF payment rates.

KEY POINTS: At this meeting, we will review information regarding fiscal year 2004 Medicare margins for SNFs, trends in current costs, and market factors used to assess beneficiaries' access to quality care. We will also present draft SNF recommendations, similar to those we presented at the December meeting.

We conclude from the available evidence that:

- the majority of Medicare beneficiaries who need physical, occupational, or speech therapies in SNFs have little or no difficulty accessing these services, while patients needing certain complex, nontherapy services likely experience delays;
- growth in SNFs' capacity to provide services and in the volume of SNF services indicates no emerging problems for beneficiaries' access to care in this setting;
- certain SNFs (and nursing homes) may not be devoting the resources necessary to maintain and improve quality of care for SNF (or nursing home) residents, but raising Medicare SNF payments beyond their current levels will likely not improve quality;
- SNFs' access to capital declined in the early part of 2003, but appears to be improving; and
- aggregate Medicare payments for SNF services are adequate to cover the costs of caring for Medicare SNF patients in fiscal year 2004, although the SNF classification system does not distribute payments appropriately to account for the expected resource needs of different types of Medicare SNF patients.

ACTION: Commissioners should discuss the tone, findings, and draft recommendations for the SNF chapter of the March 2004 report. The Commission's recommendations regarding updates to payments for SNF services will be included in the March 2004 report.

STAFF CONTACT: Susanne Seagrave (202-220-3719)